

QUALIFYING FOR SERVICE RETIREMENT

SERVICE RETIREMENT:

1. A member with 27 years **Kentucky** service may retire with unreduced benefits regardless of age.
2. The minimum **age** required for unreduced benefits for members with less than 27 years of service is 60.
3. Members with at least five years of Kentucky service are eligible to retire at age 55 with an annuity reduced five percent for each year the member's age is less than 60 or by the number of years the Kentucky service is less than 27, whichever is the lesser number.
4. Only service based on full-time Kentucky employment can be used to meet the five year vesting for retirement.
5. Service earned in a reciprocal retirement system will count in total years of service.

27 YEAR RETIREMENT: Members with at least 27 years of Kentucky service are eligible to retire with unreduced benefits. A maximum of six years active military duty and up to ten years of out-of-state credit may be used in meeting the service requirements. Members may use out-of-state service to qualify for twenty-seven (27) year retirement by paying an additional charge. The additional charge is computed by multiplying 8% times your final average salary at retirement for each year of out-of-state service that is qualified. Members age sixty (60) or older are not required to pay the additional charge, unless out of state service is used to qualify for the three (3) year final average salary formula. In this case, members are required to make the qualifying payment at retirement.

RETIREMENT AGE: A member's age is the age attained as of the first day of the month following the month in which the member's birthday occurs.

HEALTH INSURANCE: Health insurance coverage becomes effective the first day of the month following the month your retirement becomes effective. Members under age 65 are

permitted to continue health insurance coverage with the state sponsored health plan. Members age 65 and over may select coverage with the KTRS medicare supplement that is currently offered through the Medicare Eligible Health Plan (MEHP).

LIFE INSURANCE BENEFIT: All retirees are covered by a \$5,000 life insurance benefit, which can be paid either to the member's estate or to one designated beneficiary. Such a designation must be on a KTRS form.

FEDERAL LIMITS ON SERVICE CREDIT PURCHASES: Section 415 of the Internal Revenue Code has established monetary limits on certain service credit purchases which cannot be exceeded either annually or at retirement based upon member contributions plus the annual annuity of the retiring member according to age at retirement.

APPLICATION FOR SERVICE RETIREMENT

Your Service Retirement Application must be filed on forms furnished by the Kentucky Teachers' Retirement System (KTRS). If you wish to retire at the close of a school year (which is normally July 1), you must file an application on **or before June 1** for your retirement to be effective on July 1. With the concurrence of the employing board, you may (if eligible to retire) file an application for retirement during the school year. Approved applications that are filed during a school year are effective as of the first of the month following the date the application is received by KTRS.

If you also have service in a reciprocal retirement system (KERS, State Police Retirement plan, CERS, JRS) you must file a separate application with the KRS office. The retirement date must be the same for KTRS & KRS. Contact the reciprocal agency for applications and filing information. A copy of your birth certificate, social security card, marriage certificate and beneficiary's birth certificate (if applicable) are required.

MINIMUM BENEFIT

Effective July 1, 2002, you are entitled to receive an annual allowance totaling not less than \$400 multiplied by the total years of service. This minimum applies to the "Straight Life Annuity with Refundable Balance" (Option I). Any discounts due to the selection of any other option or due to early retirement will proportionately reduce your monthly benefit after the minimum value has been applied. Effective July 1, 2003, the minimum annual allowance increases to \$440 multiplied by the total years of service.

ANNUAL INCREASES

A standard, statutory cost of living adjustment ("COLA") in the full amount of one and one-half percent (1.5%) is provided annually to retirees who have been retired for at least one year prior to July 1, the annual effective date of the COLA. For members who were retired for less than a full year immediately preceding the date that a COLA becomes effective, the COLA is awarded on a pro rata basis depending on how long the member was retired during the prior fiscal year. Periodic increases have been made in the past in addition to the regular one and one-half percent annual increment.

PAYMENT OF ANNUITIES

Retirement annuities are payable monthly. Your first payment will be paid on or before the last day of the month (following the completion of one full payment period). You may expect to receive future payments around the last of each month. If you retired effective July 1, you may expect your check on or before July 31. Your monthly annuity is deposited via electronic funds transfer (EFT) directly into the account of your financial institution.

TAXES

Your retirement annuity is exempt from Kentucky income tax if you retired before January 1, 1998, but you have to report your retirement income to the Internal Revenue Service (IRS). Under federal tax law, members must pay taxes on their tax-sheltered annuities beginning with the first retirement check. If you made contributions prior to August 1982 or made personal payments to the Kentucky Teachers' Retirement System (KTRS), you may exclude a small portion of your retirement annuity from taxation over your expected lifetime or that of your beneficiary. KTRS will withhold federal taxes on the taxable portion of your retirement annuity. When you retire, you **must** complete Form W-4P instructing KTRS how to withhold taxes from your annuity.

Members who retired after January 1, 1998 will need to determine whether any of their annuity will be subject to Kentucky income tax. Only the portion of your retirement annuity that is based upon service earned after January 1, 1998 will be subject to Kentucky income tax. And for tax year 2003, Kentucky taxpayers will be eligible for an annual pension exclusion of \$39,400. KTRS estimates it will take several years before most retirees who retired after January 1, 1998, will pay Kentucky state income tax on their KTRS pension. All members receiving benefits from KTRS receive a Form 1099R, Statement for Recipients of Annuities, Pensions, Retired Pay, or IRS Payments. This statement shows the member's total benefits received, taxes withheld, and taxable income for the preceding year. The 1099R has a box designated to report the Kentucky taxable portion of the KTRS benefit. As a service to its members, KTRS will calculate the Kentucky Gross Pension Income subject to state tax and report the same in the appropriate 1099R box. Retired members will have to compare the gross income reported on the 1099R to the annual exclusion allowed for that year. KTRS mails these statements to its retirees each January. The IRS is also provided this information.

**RETIREMENT VALUE
OF YEAR OF SERVICE**

Service rendered between July 1, 1941 and July 1, 1983 will be valued at 2% per year. Service rendered after July 1, 1983 will be valued at 2.5%. For those persons who become members of KTRS on or after July 1, 2002, who have earned less than 10 years of service credit, the retirement allowance will be 2% of the member's final average salary for each year of service. Should the member retire with 10 or more years of service the retirement allowance will be 2.5% of the member's final average salary for each year of their total service. All service of university members is valued at 2% since they also contribute to social security.

**CALCULATING
YOUR ANNUITY**

The Straight Life Annuity with Refundable Balance (Option I) is the basic retirement plan and must be calculated before adjustments can be made for optional retirement plans or for early retirement. The following steps will assist you in computing an approximate amount for a Straight Life Annuity (Option I). You may also wish to visit the Retirement Benefit Estimator located on the KTRS homepage at www.ktrs.org.

STEP 1:

- a. Total your five (5) highest years of salary and divide by five (5) to determine your final average salary, or;
- b. Total your three (3) highest years of salary and divide by three (3) to determine your final average salary if you are at least fifty-five (55) years of age and have at least twenty-seven (27) years of Kentucky service at the time of your initial retirement.

STEP 2: Contributing Service -

- a. Total your years of service before June 30, 1983. Multiply the total service by the final average salary from Step 1 and then by 2%. If

you are a university member, total your years of service to present, multiply the total service by the final average salary and then by 2%. University members disregard sections (b) and (c) of this step.

b. Multiply the total service after July 1, 1983, by the final average salary from Step 1 and then by 2.5%. (If you retire on or after July 1, 2004, multiply qualifying service in excess of thirty years by 3.0%. Contact KTRS for details.)

c. Total the values computed in (a) and (b) to find your yearly Straight Life Annuity.

STEP 3:

Divide the yearly annuity by twelve (12) to determine your monthly annuity under the Option I (Straight Life Annuity) Plan.

STEP 4:

If your age or service does not entitle you to unreduced benefits, figure the applicable statutory reduction. (Apply 5% reduction for each year less than 27 or each year under age 60, whichever is less.)

NOTE: Your retirement annuity cannot exceed your last annual compensation or your final average salary, whichever is greater. If you became a member of KTRS on or after July 1, 2002, or if you are a retired member of KTRS starting a second account under the return to work provisions, and you retire with less than ten (10) years of service credit you are eligible for a retirement factor of 2.0%, not 2.5%, for each year of service.

**INFORMATION ABOUT
YOUR ANNUITY**

To obtain a complete estimate of your retirement benefits contact KTRS and include the following information: Name, address, social security number, current year salary, beneficiary's birthdate and relationship to member, along with your projected

retirement date. If the employer pays for sick days, you will need to provide the balance of unused sick leave and projected salary increases for each year beyond the current year.

You may also wish to visit the KTRS homepage at www.ktrs.org and click on the Retirement Benefit Estimator to obtain an unofficial, basic estimate of an Option I straight life annuity.

**MONTHLY BENEFIT
FOR ADULT HANDICAPPED
CHILD**

An additional monthly benefit of \$200 is available to your child if you have an adult child whose mental or physical condition is sufficient to cause dependency on you at retirement. Eligibility for this payment shall continue for the lifetime of such child or until such time as the handicapping condition creating the dependency no longer exists or until the child marries. Benefits under this subsection shall also apply to adopted children. The Board of Trustees shall be the sole judge of eligibility or dependency, and a KTRS application must be completed to apply for such benefits.

This pamphlet is intended for general informational purposes only. In the event of conflict between the provisions of this pamphlet and the relevant law, the latter will prevail. As the law is subject to change, you should contact KTRS prior to making important retirement decisions.

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
479 VERSAILLES ROAD
FRANKFORT, KY 40601-3800
TELEPHONE - (502) 848-8500
www.ktrs.ky.gov

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